

LENDING CODE REPORT

ANNUAL REPORT 2017

Setting standards, creating transparency



CHAIRMAN'S FOREWORD

On behalf of the FLA Lending Code Group, I am pleased to introduce our Annual Report for the year ending 31 December 2017. The report sets out the work undertaken last year by the Group.

Over the past 12 months, the fast pace of regulatory change has continued. The Financial Conduct Authority (FCA) invited input as part of its High Cost Credit Review, consulted on new rules for affordability and creditworthiness assessments and finalised additional consumer protection measures following the Credit Card Market Study. Other regulatory measures included preparations for implementing the Senior Managers and Certification Regime, and the General Data Protection Regulation.

Eight firms were visited by the FLA Lending Code Group's independent reviewer over the course of the year. These visits provide an opportunity for both the firm and the Reviewer to discuss compliance with the Code's provisions in detail, explore where improvements might be made and share good practice. In addition, we worked with credit card firms as they implemented the Credit Card Market Study's remedies, some of which have been incorporated within

the Code, for example, alerting customers when they are nearing their credit limit. We also checked that firms were on course to meet the implementation deadlines.

Over 70 firms now subscribe to the Code, who together provide over a third of consumer credit finance in the UK. The compliance visits and the annual Code Compliance Statement have shown high levels of compliance during 2017. I would like to thank the Code Group and the Code Compliance Team for their knowledge, expertise and wise counsel which has been invaluable in overseeing compliance with the Code.



Geoffrey Woodroffe
Chairman

STATEMENT BY THE DIRECTOR GENERAL

Working with the Financial Conduct Authority to deliver additional consumer protections.

The inclusion of new requirements in the Code following the FCA's Credit Card Market Study demonstrated the important role industry Codes can play in introducing additional consumer protection measures more quickly than changes to the statutory regime.

We hope this will set a useful precedent for other credit market sectors where we can work with the FCA to deliver regulatory change via the Code.

The FCA welcomed our response to the consultation on its Mission in 2017, in which we called for better communication with regulated firms. In response, the FCA now plans to supervise firms in groups or "portfolios" with similar business models. Each group will have a named supervisor, meaning that for the first time all supervised firms will have a designated contact person, and so should not have to rely solely on the FCA's Contact Centre when queries arise.

We look forward to hearing more from the FCA on how this will work in practice.

FLA members' commitment to the Code remains strong, and I would like to thank Professor Woodroffe, the Lending Code Group and the Code Compliance Team for their extensive work over the year in monitoring compliance. My thanks are also due to the FLA's members for their continued support for the Code at a time of considerable regulatory change.



Stephen Sklaroff
Director General

REVIEW OF 2017

Over the 25 years of the FLA's Lending Code, it has changed continuously to reflect evolution in our markets, products, customers and regulatory requirements.

One of the core principles of the Code is that it should enable a customer to easily understand what they may expect when taking out credit from an FLA member, including both their statutory rights and the additional standards to which FLA members adhere.

2017 saw the adoption of the latest version of the Code, which contains streamlined and simplified provisions, and additional remedies proposed by the FCA as part of its Credit Card Market Study. The new Code also reflects the recent closure of the Code Conciliation Scheme, which had seen a very marked reduction in usage following the introduction of effective alternative dispute schemes such as that provided by the Financial Ombudsman Service. We have worked closely with members following the closure of the Scheme to ensure an orderly transition for consumers.

The pace of regulatory change remains undiminished. One benefit of industry Codes is that they can react more swiftly to new circumstances than formal regulation, and can provide an alternative in situations where formal regulation would not be proportionate. Codes can also reflect the industry's desire to tackle potential challenges before regulatory interventions are needed, embodying good practice which encourages better outcomes for both consumers and firms.

2018 will see continuing efforts to build on these strong foundations. The FLA is already working with its members on potential further changes to the Code in light of its ongoing dialogue with the FCA. One focus of attention is the relationship between the Code and the range of general guides for customers and good practice notes which sit alongside it.

The next twelve months will inevitably be dominated to some extent by the FCA's extension of its Senior Managers and Compliance Regime to all regulated firms, by new rules for creditworthiness and affordability, and by the continued implementation of the new General Data Protection Regulation. These issues reflect the diverse regulatory landscape within which FLA firms must do business, and which the FLA Lending Code reflects.

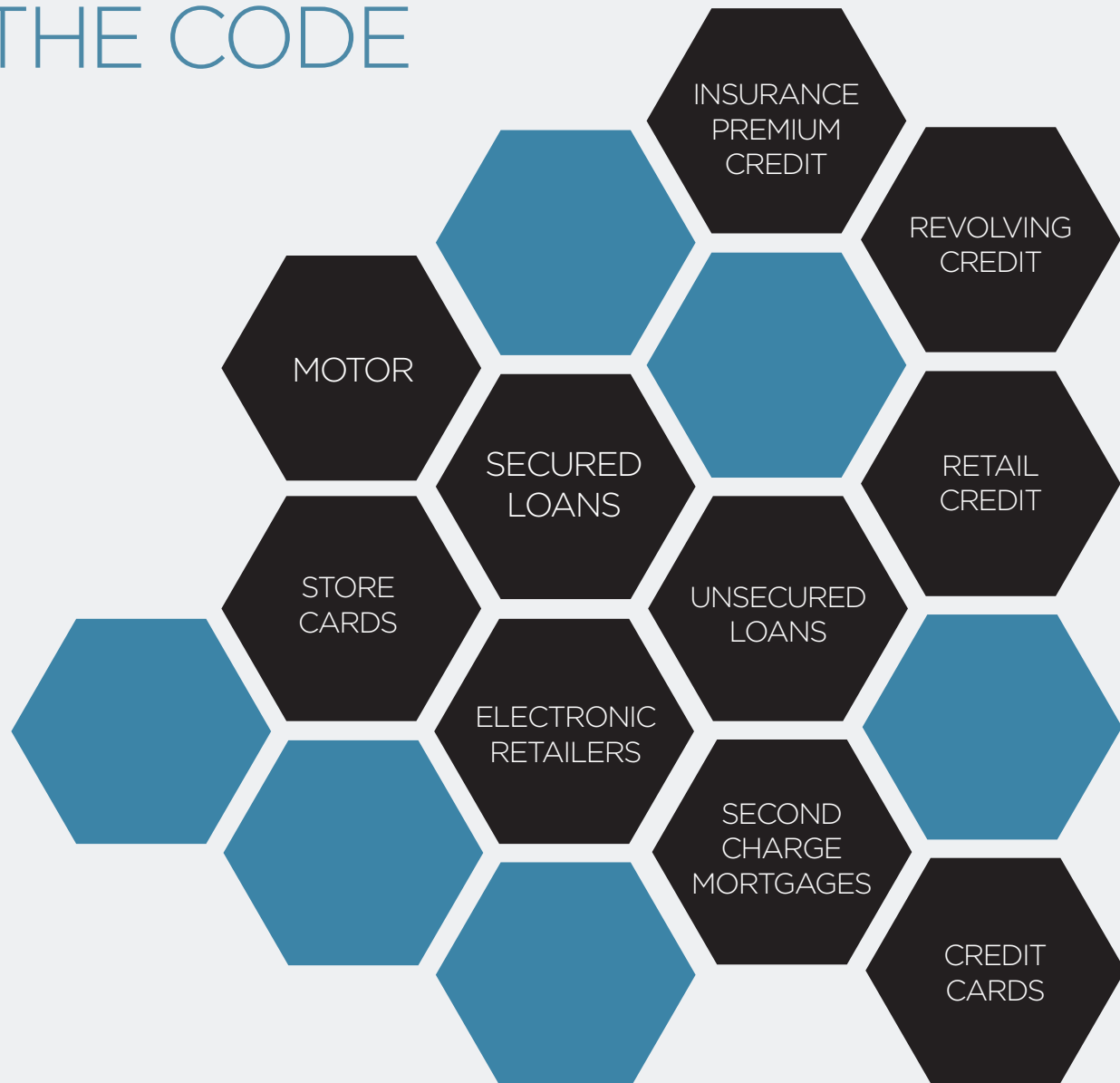
MONITORING THE CODE

Statement of Compliance

FLA members providing consumer or motor finance must comply with the Lending Code as a condition of membership. The Compliance Statement plays an important role in the Code Group's work in monitoring compliance with the Code.

The CEO of each FLA member company covered by the Lending Code is asked to sign an annual Statement of Compliance to confirm that their company is compliant with the Code's provisions. Before doing so, member companies are asked to conduct an internal audit of their operations so that information about how they ensure compliance can be included in the Statement.

Members are able to use the Statement to describe best practice they have adopted, as well as any difficulties they may have encountered in complying with the Code - including breaches. This information allows the Code Group to identify areas in the Code which might require clarification, or where members might need more guidance. This in turn ensures that the Code remains relevant to members' businesses and that consumers can continue to rely on the Code's provisions.



MONITORING THE CODE

Compliance Statement Review Visits

Inspection visits to member firms are part of the monitoring process. The inspections are carried out by an independent Reviewer and aim to ensure that members' day-to-day processes and operations comply with the Code's provisions.

The Code Group selects members to visit using a risk model, which reflects the Statement of Compliance, the size of the company, the length of FLA membership and other relevant regulatory and industry factors.

Eight visits were carried out in 2017. In addition, the FLA's Compliance Team met with new FLA members to discuss regulatory expectations under the Code.

Enforcement Action and Disciplinary Panel:

Minor infringements of the Code are usually dealt with by the FLA Compliance Team. In more serious cases, the Lending Code Group can take enforcement action against members who consistently fail to meet the Code's provisions. There were no instances of serious breaches requiring enforcement action under the Code in 2017.

The Lending Code Disciplinary Panel is a committee, independent of the industry, which would deal with the most serious instances of non-compliance with the Code. The Panel convenes only after an investigation has been conducted by the Lending Code Group and previous attempts to resolve the issue have failed. The Disciplinary Panel would then consider whether the actions of the member firm concerned might result in serious consumer detriment and/or reputational damage to the Code, and whether further action should be taken, including in extreme cases a recommendation to the FLA Board that the member concerned be expelled from the Association. The Disciplinary Panel was not required to convene during 2017.

MONITORING THE CODE

FLA Conciliation Scheme:

In September 2017 the FLA Conciliation Scheme was closed, following a twelve-month period of winding down. The Scheme's closure reflected the very small number of complaints now received from consumers and the fact that, in the majority of cases, consumer complaints about credit agreements fall within the Financial Ombudsman Service's (FOS) jurisdiction. The FOS is also able to award redress to consumers, which the FLA's Scheme was unable to do.

Despite the Scheme's closure, the FLA continues to monitor the types of complaints received by member firms, who are asked, as part of the yearly Compliance Statement, to provide the FLA with details of the top five categories of complaint. The latest such information is shown in Figure 1.

As in previous years, members have reported that their main categories of complaints continue to concern Customer Service, Payment Protection Insurance (PPI) and Quality of Goods.

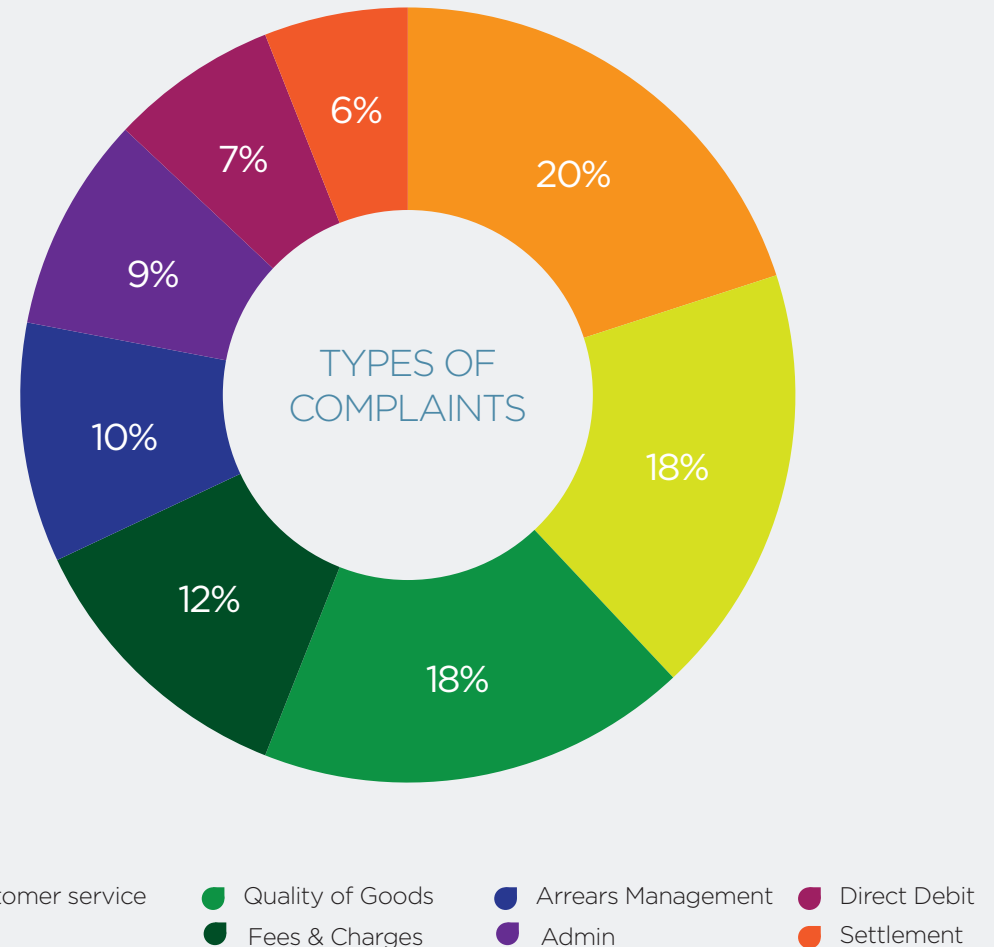


Figure 1: FLA Members' "Top 5" types of Complaints 2017

FLA LENDING CODE GROUP

Consumer Representatives and Legal Experts

Professor Geoffrey Woodroffe, (Chairman), Solicitor, Consumer Law Expert
Helena Wiesner, Consumer Affairs Specialist
Nick Lord, Consultant, Money Advice and Personal Finance
Frances Harrison, Consumer and Financial Policy Advice Specialist
Sally Coles, Consultant and Trainer, Money Advice
Claire Whyley, Consumer Research and Policy Specialist

Industry Practitioners

David Evison, Compliance Manager, Shop Direct Finance Company Limited
Carolyn Cockwell, Senior Regulatory Compliance Manager, Barclaycard
Roy Dale, Regulatory Policy Manager, BNP Paribas Personal Finance
Mike Potter, Director of Mortgage Lending, Paragon Bank PLC

FLA Staff (providing secretariat support to the Group)

Henry Aitchison, Senior Policy Adviser
Patsy Calnan, Code Compliance Officer
Hanifa Teladia, Code Administrator

More Information:

For more information on the FLA Lending Code or the Code Group, please visit:
www.lendingcode.org.uk
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